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INFO RUEHBO/AMEMBASSY BOGOTA 7857
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RUMIAAA/HQ USSOUTHCOM MIAMI FL
RUCPDO/DEPT OF COMMERCE
RUEATRS/DEPT OF TREASURY

C O N F I D E N T I A L CARACAS 001328

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HQ SOUTHCOM ALSO FOR POLAD
TREASURY FOR MEWENS
NSC FOR JSHRIER
COMMERCE FOR 4431/MAC/WH/MCAMERON

E.O. 12958: DECL: 09/19/2018
TAGS: [ECON](#) [EFIN](#) [VE](#)
SUBJECT: INVESTIGATION INTO FINANCIAL FRAUD SHOWS BRV'S
HEAVY-HANDED TACTICS

REF: A. 2007 CARACAS 741
[1](#)B. 2006 CARACAS 3375
[1](#)C. 2007 CARACAS 493
[1](#)D. 2007 CARACAS 1902
[1](#)E. CARACAS 1135

Classified By: Economic Counselor Darnall Steuart for reasons 1.4 (b)
and (d).

[1](#)1. (C) Summary: The Bolivarian Republic of Venezuela (BRV) has opened an investigation into financial fraud associated with four bond issuances in late 2006 and 2007. This investigation included a public, high-profile raid of one of Venezuela's largest brokerage houses in July 2008 during which investigators, backed by machine-gun toting members of Venezuela's intelligence services, confiscated a variety of records, including sensitive client information. While there was undoubtedly fraud associated with these bond issuances, the BRV's investigation appears designed to intimidate financial sector companies rather than efficiently uncover the fraud. It also underscores the pressure financial services companies, including banks, are under to reveal sensitive client information to the BRV. End summary.

An Invitation for Corruption

[1](#)2. (U) The BRV investigation is focusing on four large bond issuances: the USD 7.5 billion PDVSA issuance in April 2007 (ref A) and the three tranches of "Bonos del Sur" offered in November 2006 and March and September 2007 (refs B-D). Each issuance included dollar-denominated debt instruments payable in bolivars (Bs) and was targeted at small and medium-sized investors. As the implicit exchange rate offered was generally significantly lower than the parallel foreign exchange rate, these issuances offered buyers the opportunity to obtain dollar assets on the cheap, or an opportunity for instant profit of 15 to 30 percent for those who immediately sold the dollar assets and converted the proceeds back into bolivars at the parallel rate. (Note: As companies and individuals cannot exchange as many bolivars for dollars as they would like at the official rate, a parallel foreign exchange market has developed. Under current law this market is legal if accessed through a bond swap mechanism. End note.) To make purchases on behalf of their clients, financial services companies submitted to the BRV or the Central Bank (BCV) a list with the name, identity number, and

amount requested per each client. As the only check made by the BRV or BCV was whether the identity number was a valid number, the potential for fraud was enormous and there were reports of unscrupulous brokerage houses buying identity numbers from residents of poor neighborhoods and submitting offers on behalf of far more people than their actual number of clients.

An Investigation Ensues

13. (C) According to Econoinvest Executive Director Gabriel Osio (strictly protect throughout), who is also president of the Association of Casas de Bolsas (brokerages), the Fiscalía (Attorney General's Office) began to investigate alleged fraud associated with these bond issuances in the spring and summer of 2008. (Note: Econoinvest is one of Venezuela's largest and most reputable brokerage houses. End note.) The association, he explained, was cooperating with the Fiscalía, seeking to educate the BRV on how to conduct an efficient and discrete investigation using data already in the BRV's possession (e.g., by looking for cases where the same identity number was used more than once or where the number of orders submitted by a given brokerage exceeded its likely client base). To the dismay of Osio and his colleagues, financial services companies began receiving notices in mid-July demanding that they surrender to the BRV all records associated with the bond issuances, including client files. Econoinvest received a notice late in the afternoon of July 15, though dated July 11, giving it 24 hours to surrender this information.

14. (C) In the early afternoon of July 16, according to Osio and his colleagues, about 20 heavily armed agents from the Fiscalía and DISIP, Venezuela's intelligence service, arrived at Econoinvest's offices. This raid was well documented by the press, in part because the Fiscalía issued a press notice justifying the raid by claiming that Econoinvest had received on July 11 a notice giving it 24 hours to surrender the files and had not complied. In the tense standoff that followed, the agents demanded Econoinvest's computer servers. When Econoinvest managers refused, the agents demanded all files related to the bond issuances, including all information about the clients involved. After further negotiation, the agents left with the complete files of a random selection of 250 clients who put in orders for the bond issuances; they refused to provide receipts for the records they took. According to Osio and his colleagues, the Fiscalía has been calling some of these clients in for interviews, asking questions that cover the entire gamut of their financial situation.

A Hunger for Private Financial Information

15. (C) This case is not the only instance where the BRV has demanded private citizens' financial information from financial institutions. One banker we spoke with in August shared with us a circular from Sudeban, the banking regulator, asking banks to provide information on all accounts with an annual average above Bs 200,000 (USD 93,000 at the official exchange rate). This banker has so far refused to comply with Sudeban's demand. An executive at another leading brokerage firm said his company had similarly refused to hand over full financial records of all clients who had put in bond orders. The BRV's intent to nationalize Banco de Venezuela has caused concerns within the bank's client base over what the government will do with the records it acquires (ref E).

Comment

16. (C) The fraud associated with the bond issuances and the

ham-handed investigation that has followed offer a small but poignant example of how incapable the BRV is of providing effective government. The brokers who submitted orders from ghost clients are criminals and should be brought to justice.

That said, it is hard not to hold the BRV responsible as well, as its officials have created and benefited from an environment rife with financial corruption and, in the case of these issuances, created huge incentives for exactly the type of fraud that occurred. In the subsequent investigation, the BRV could have relatively easily identified the unscrupulous financial services companies using data already available to it. Instead, it chose to conduct a high-profile raid, complete with an excessive show of force, on a large and reputable brokerage house, a clear example of the BRV's predilection for a public show of intimidation over effectiveness. The BRV's demand for individuals' financial data is of even greater concern for legitimate financial services companies and their customers. End comment.

CAULFIELD